Supreme Court, U.S.

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No.

IN THE

Supreme Court of the United States

OCTOBER TERM, 1993

COLLINS LICENSING, L.P.,
Petitioner,
v.
AMERICAN TELEPHONE AND TELEGRAPH COMPANY,
Respondent.

Petition For A Writ of Certiorari To The United States Court of Appeals For the Federal Circuit

PETITION FOR WRIT OF CERTIORARI

ROLF STADHEIM
Counsel of Record
JOSEPH A. GREAR
LAW OFFICES OF
ROLF STADHEIM, LTD.
Wrigley Tower - 22nd Floor
400 N. Michigan Avenue
Chicago, Illinois 60611-4102
(312) 755-4400

PAUL M. SMITH
FARR, SMITH & TARRANTO
2445 M Street, N.W.
Washington, D.C.20037
(202) 775-0184

Counsel for Petitioners

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QUESTIONS PRESENTED

In this patent case, the U.S. Court of Appeals for the Federal Circuit reversed a judgment holding respondent liable for infringing petitioner's patent, reasoning that the patent was invalid because the invention was "obvious." In reaching this conclusion, the court of appeals relied on its own analysis of the relevant "prior art," rejecting the contrary conclusions reached by a jury and by the Patent and Trademark Office, which twice upheld the validity of the patent in separate reexamination proceedings. This action raises the following questions:

1. In patent cases, is the ultimate question of obviousness a question of fact to be decided by the jury subject to review under the substantial evidence standard, or a question of law subject to independent review?

2. Where the Patent and Trademark Office has reexamined and confirmed the validity of a patent pursuant to 35 U.S.C. ch. 30, and that fact is in the record, what weight, if any, should the Federal Circuit give to this administrative determination in deciding the same question in an infringement action?

3. Should this Court exercise its supervisory power over the Federal Circuit in a case where that court (1) reached an issue that was not presented by the parties, (2) applied an improper standard of review, and (3) failed to apply the applicable substantive law?

LIST OF PARTIES

The parties to the trial proceedings were the parties designated in the caption and Southwestern Bell Telephone Corporation which was dismissed before trial.

RULE 29.1 LIST OF PARENT COMPANIES

Collins Licensing, L.P. is a limited partnership and, as such, has no parent company or subsidiaries.

TABLE OF CONTENTS

Page

QUESTIONS PRESENTED i

LIST OF PARTIES i

RULE 29.1 LIST OF PARENT COMPANIES i

TABLE OF CONTENTS ii

TABLE OF AUTHORITIES iv

OPINIONS BELOW 1

JURISDICTION 1

CONSTITUTIONAL AND STATUTORY PROVISIONS 2

STATEMENT 3

REASONS FOR GRANTING THE WRIT 7

I. THE FEDERAL CIRCUIT'S HOLDING THAT OBVIOUSNESS IS A QUESTION OF LAW IS LEGALLY INSUPPORTABLE 9

A. *The Federal Circuit's Rule Conflicts Both with the Pre-1952 Case Law and with the Language Used by Congress in the 1952 Codification* 10

B. *The Federal Circuit's Rule Makes No Legal or Practical Sense* 14

TABLE OF CONTENTS—Continued

Page

II. THE FEDERAL CIRCUIT SHOULD BE REQUIRED, ABSENT SOME EXTRAORDINARY CIRCUMSTANCE, TO UPHOLD A JURY VERDICT ON OBVIOUSNESS THAT IS SUPPORTED BY A PREVIOUS DETERMINATION BY THE PATENT OFFICE IN A REEXAMINATION PROCEEDING 17

III. THIS COURT SHOULD EXERCISE ITS SUPERVISORY POWER OVER THE FEDERAL CIRCUIT 21

CONCLUSION 25

TABLE OF AUTHORITIES

Page

Cases:

Anderson v. City of Bessemer City,
470 U.S. 564 (1985) 11, 15

Battin v. Taggert,
17 How. 74, 58 U.S. 74 (1854) 10

In re Carlson, 983 F.2d 1032
(Fed.Cir. 1992), amended 1993
U.S. App. LEXIS 1665 (Fed.Cir. Feb. 1, 1993).... 9, 18

Consolidated Edison Co. v. Labor Board,
305 U.S. 197 (1938) 22

Consolo v. Federal Maritime Comm'n,
383 U.S. 607 (1966) 22

Creative Manufacturing, Inc. v. UNIK, Inc.,
1989 WL 86447 (Fed.Cir. 1989)
(unpublished) (dissent) 16

Custom Accessories, Inc. v. Jeffrey-Allan Industries,
807 F.2d 955 (Fed.Cir. 1986) 17

Dennison Mfg. Co. v. Panduit Corp.,
475 U.S. 809 (1986) 9, 17, 23, 24

In re Etter, 756 F.2d 852 (Fed.Cir.)
(Nies, J., concurring), *cert. denied*
474 U.S. 828 (1985) 20

Far Eastern Conference v. United States,
342 U.S. 570 (1952) 19

Fountain v. Filson,
336 U.S. 681 (1949), reh'g
denied 337 U.S. 921 (1949) 21

Graham v. John Deere Co.,
383 U.S. 1 (1966) 6, 9, 10, 11, 12, 14,
15, 18, 21, 22, 23

TABLE OF AUTHORITIES—Continued

Page

Cases:

Graver Tank & Mfg. Co. v. *Linde Air Products Co.*, 339 U.S. 605 (1950), reh'g denied 340 U.S. 845 (1950) 12

Great Atlantic & Pacific Tea Co. v. Supermarket Equipment Corp., 340 U.S. 147 (1950), reh'g denied 340 U.S. 918 (1951) 14

Hotchkiss v. Greenwood, 11 How. 248 (1851) 11

Johnson v. New York, N.H. & H.R. Co., 344 U.S. 48 (1952) 21

Kalman v. Kimberly-Clark Corp., 713 F.2d 760 (Fed.Cir. 1983), *cert. denied* 465 U.S. 1026 (1984) 12

Keyes v. Grant, 118 U.S. 25 (1886) 10

McAllister v. United States, 348 U.S. 19 (1954), mod. denied 348 U.S. 957 (1955) 11

Newell Cos. v. Kenney Mfg. Co., 864 F.2d 757 (Fed. Cir. 1988), *cert. denied* 493 U.S. 814 (1989) 10, 15, 16, 17, 24

Newman v. Quigg, 877 F.2d 1575 (Fed.Cir.), modified 886 F.2d 329 (1989), *cert. denied* 495 U.S. 932 (1990) 12

In re Opprecht, 868 F.2d 1264 (Fed. Cir. 1989) 20

Panduit Corp. v. Dennison Mfg. Co., 810 F.2d 1561 (Fed.Cir.), *cert. denied* 481 U.S. 1052 (1987) 9, 10, 18

TABLE OF AUTHORITIES—Continued

Page

Cases:

Patlex Corp. v. Mossinghoff,
758 F.2d 594 (Fed.Cir),
modified, reh'g denied 771 F.2d 480 (1985) 20

Perkin-Elmer Corp. v. Computervision Corp.,
732 F.2d 888 (Fed.Cir. 1984),
cert. denied 469 U.S. 857 (1984) 22

Pullman-Standard v. Swint,
456 U.S. 273 (1982) 16, 22

Railroad Dynamics, Inc. v. A. Stucki Co.,
727 F.2d 1506, (Fed.Cir.), *cert. denied*
469 U.S. 831 (1984) 16

Sakraida v. AG Pro, Inc.,
425 U.S. 273 (1976),
reh'g denied 426 U.S. 955 (1976) 10, 11

Stratoflex, Inc. v. Aeroquip Corp.,
713 F.2d 1530 (Fed.Cir. 1983) 23

Thomson Spot Welder Co. v. Ford Motor Co.,
265 U.S. 445 (1924) 11

U.S. v. Esnault-Pelterie,
299 U.S. 201 (1936) 11

United States v. Adams,
383 U.S. 39 (1966) 15, 23

Weinberger v. Bentex Pharmaceuticals, Inc.,
412 U.S. 645 (1973) 18, 19

Williams Mfg. Co. v. United Shoe Machine Corp.,
316 U.S. 364 (1942) 10

TABLE OF AUTHORITIES—Continued

Statutes and Other Authorities: Page

6 *Moore's Federal Practice*, ¶ 56.11[10] 13

10 *Moore's Federal Practice* ¶ 301.04 13

28 U.S.C. § 1254(1) 1

35 U.S.C. § 101 12

35 U.S.C. § 102 ..... 2, 4, 21

35 U.S.C. § 103 ..... 2, 3, 5, 9, 10, 11, 14, 21, 22

35 U.S.C. § 282 ..... 2, 5, 12, 13

AIPLA Bulletin, Third Quarter, 1993, p. 651 24

Advisory Committee Note on 1972 Proposed Fed.R.Civ.P. 301 13

Advisory Committee Note on 1985 amendment to Rule 52 15

Chisum, *Patents*, Vol. 3, § 11.07[4], 11-295 (1993) 20

Fed.R.Civ.P. 52 16

Fed.R.Civ.P. 52(a) 9, 15

Fed.R.Evid. 301 13

Fourth Judicial Conference for the Federal Circuit, 112 F.R.D. 439, 452 (1986) 24

National Law Journal, "New Patent Chief Reinvents His Job", February 28, 1994, p.40 24

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TABLE OF AUTHORITIES—Continued

Page

Patent Act of 1952 ..... 9, 12

Quarterly Reexamination Statistical Report of the Assistant Commissioner of Patents, December 31, 1983 19

Sup.Ct.R. 10.1(a) 21

Tao, *An Examination of the Federal Circuit's Multi-Tiered Review of Patent Obviousness*, 20 Am.Intell.Prop. L.A.Q.J. 84 (1992) 16

U.S. Constitution, Article I, § 8 ..... 2, 14

Previous Petitions for Writs of Certiorari:

Daig Corp. v. Medtronic, Inc., *cert. denied* 479 U.S. 931 (1986) 17

Dennison Manufacturing Co. v. Panduit Corp., *cert. denied* 481 U.S. 1052 (1987) 17

May v. American Southwest Waterbed Distributors, Inc., *cert. denied* 465 U.S. 1103 (1984) 17

Merck & Co. v. Biocraft Laboratories,Inc., *cert. denied* 493 U.S. 975 (1989) 17

Monoclonal Antibodies, Inc. v. Hybritech, Inc., *cert. denied* 480 U.S. 947 (1987) 17

Newell Companies Inc. v. Kenney Manufacturing Co., *cert. denied* 493 U.S. 814 (1989) 17

Nicolet Instrument Corp. v. Bio-Rad Laboratories, Inc., *cert. denied* 469 U.S. 1038 (1984) 17

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PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

Collins Licensing, L.P. petitions for a writ of certiorari to review the judgment of the United States Court of Appeals for the Federal Circuit in this case.

OPINIONS BELOW

The opinion of the United States Court of Appeals for the Federal Circuit is reported at 28 USPQ2d 1847 (designated unpublished) and is reprinted at Petition Appendix 1a - 11a.

JURISDICTION

The Federal Circuit issued its decision on November 5, 1993, and denied a timely petition for rehearing on January 11, 1994. The jurisdiction of this Court is invoked pursuant to 28 U.S.C. § 1254(1).

CONSTITUTIONAL AND STATUTORY PROVISIONS

Article I, Section 8 of the United States Constitution provides, in pertinent part:

> "The Congress shall have power...To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries."

Section 103 of Title 35 of the United States Code provides:

> "A patent may not be obtained though the invention is not identically disclosed or described as set forth in section 102 of this title, if the differences between the subject matter sought to be patented and the prior art are such that the subject matter as a whole would have been obvious at the time the invention was made to a person having ordinary skill in the art to which said subject matter pertains. Patentability shall not be negatived by the manner in which the invention was made. Subject matter developed by another person, which qualifies as prior art only under subsection (f) or (g) of section 102 of this title, shall not preclude patentability under this section where the subject matter and the claimed invention were, at the time the invention was made, owned by the same person or subject to an obligation of assignment to the same person."

Section 282 of Title 35 of the United States Code provides, in pertinent part:

> "A patent shall be presumed valid. Each claim of a patent (whether in independent, dependent, or multiple dependent form) shall be presumed valid independently of the validity of other claims; dependent or multiple dependent claims shall be presumed valid even though dependent upon an invalid claim. The burden of establishing invalidity of a patent or any claim thereof shall rest on

the party asserting such invalidity.

The following shall be defenses in any action involving the validity or infringement of a patent and shall be pleaded:

(1) Noninfringement, absence of liability for infringement, or unenforceability,

(2) Invalidity of the patent or any claim in suit on any ground specified in part II of this title as a condition for patentability,

(3) Invalidity of the patent or any claim in suit for failure to comply with any requirement of sections 112 or 251 of this title,

(4) Any other fact or act made a defense by this title."

STATEMENT

This is a patent case in which the jury found that respondent American Telephone and Telegraph Co. (AT&T) had infringed the patent held by petitioner Collins Licensing, L.P., on a switch used in telecommunications systems, and awarded $35 million in damages. The patent claim was twice "reexamined" by the Patent and Trademark Office (Patent Office) -- once before the trial in this case and once during the trial and appellate proceedings below. In each instance, the Patent Office was faced with the question whether the patent claim was invalid because "prior art" in the field rendered the invention "obvious," *see* 35 U.S.C. § 103, and in each instance the Patent Office upheld the validity of the patent claim. The jury in this case faced the same question, and returned a verdict for petitioner which in turn was upheld by the district judge on a motion for judgment as a matter of law. The Federal Circuit, however, treated the "obviousness" issue as a question of law and undertook its own evaluation of the prior art, ultimately concluding that the patent claim was invalid.

In the early 1970s, Arthur A. Collins envisioned a telephone system that was entirely digital. Acting on that vision, he invested fourteen years and $15 million in research and development in digital telephony. The patent in this

suit was one of eight that resulted from the work of Collins and his team of engineers. AT&T's first digital central office telephone switch employs the architecture of the patented invention. That switch quickly became AT&T's "Flagship" product with sales in the billions of dollars that dwarfed the $35 million ultimately awarded in this case.

When petitioner first presented its claim of infringement to AT&T informally, respondent contended that the patent claim was invalid based on an article previously authored by one Guido Granello. In response to this contention, Collins chose to invoke the reexamination provisions of the patent statute, in which Congress authorized any party to petition the Patent Office to reconsider the validity of a previously issued patent. The Patent Office confirmed the claim's validity over Granello and 80 other prior art references in 1990.

Despite this outcome, AT&T continued to infringe petitioner's patent, and this lawsuit was filed. Prior to trial, AT&T itself invoked the reexamination process through two filings with the Patent Office. In these it relied primarily on the same Granello prior art and on two additional prior art publications produced by Alfred Mack. These reexaminations remained pending when the case went to trial. There, respondent changed its strategy and abandoned its reliance on Granello as a basis for disputing the validity of the patent claim. Instead, respondent focused its invalidity defense on the two Mack publications and the live testimony of Mack himself.[1] Collins countered with its own expert testimony, documentary evidence, and various admissions made by Mack on cross-examination.

The jury was instructed on two related but separate invalidity defenses: "anticipation" (*i.e.*, whether the asserted invention was novel under 35 U.S.C. § 102) and obvious-

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[1] Mack published a short version and a long version of his research. The opinion below refers to the first as "Mack & Patrusky" and the second as "Final Technical Report." These two publications reflect the same prior work and are referred to here simply as "Mack."

ness (*i.e.*, whether the asserted invention, although novel, would have been obvious to those in the relevant field, under 35 U.S.C. § 103). *See* 35 U.S.C. § 282 (providing that invalidity is a defense in any infringement action). The instructions also properly stated that a patent is presumed valid. *See id.* The jury answered "No" to the written interrogatory "Do you find AT&T proved by clear and convincing evidence any one or more of the claims of the '593 patent are invalid?" Pet. App. 14a. It also found infringement, awarding petitioner $35 million in damages. Respondent moved for judgment as a matter of law, but did not argue obviousness in that motion (and of course did not mention Granello as a basis for invalidation of the patent at that point).

AT&T then changed course once again. Shortly after the trial, the Patent Office issued a preliminary response to the reexamination requests previously filed by AT&T. Relying on AT&T's earlier representations regarding Granello, the Patent Office preliminarily rejected petitioner's patent claim as invalid in light of Granello. At that point, in arguing its appeal to the Federal Circuit, respondent resurrected the argument that the claim was invalid in light of Granello, representing that this issue had been presented at trial.

After oral argument in the Federal Circuit, however, the Patent Office issued its final decision in the pending reexaminations, *upholding* the validity of petitioner's patent claim. The Patent Office concluded that neither Mack nor Granello was sufficiently similar to petitioner's invention to justify a conclusion that the invention was either anticipated or obvious. This result, in turn, was presented to the Federal Circuit, and was incorporated into the record in the then-pending appeal.

On November 5, 1993, the Federal Circuit issued an unpublished decision reversing the judgment. Without disturbing the jury's finding of infringement, the court of appeals ruled on a basis that respondent had not raised in its brief on appeal, concluding that the patented invention

would have been obvious at the time it was conceived. In reaching this conclusion, the court adopted its own interpretation of the Mack and Granello prior art, contradicting the interpretations that had been accepted by the Patent Office and the jury. It failed to apply or even to acknowledge the other factors for determining obviousness prescribed by this Court in *Graham v. John Deere Co.*, 383 U.S. 1, 17 (1966).

Finally, the court failed to come to grips with the trial evidence, which demonstrated that its interpretation of the prior art was incorrect. With respect to Mack, the trial record included the testimony of petitioner's technical expert, who rejected the interpretation of that prior art which was later adopted by the Federal Circuit. Moreover, Mack himself admitted on cross-examination that two of the features of the claimed invention were not taught in his publications.[2] None of this was mentioned in the opinion of the court of appeals.

Similarly, with respect to Granello, the *only* testimony interpreting Granello's Figure 5 was given by petitioner's technical expert (before it was known that AT&T had abandoned its Granello invalidity defense).[3] His opinion, which was supported by other documents in the record,

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[2] Specifically, his prior art taught use of a "Basic Module" combining time-space-time in one module, instead of three individual modules as required by petitioner's patent claim, *Ct. App. J.A.* 3583, and use of a *single* "cyclic retrieval" means to handle the controls for all three switching mechanisms, *id.* at 3592, instead of *multiple* individual cyclic retrieval means as required in the claim.

[3] AT&T submitted exhibits referring to Granello, but did so for entirely different reasons. The only testimony from any AT&T witness mentioning Granello came during cross-examination on an unrelated issue. More importantly, AT&T never argued to the jury (or to the judge in its post-trial motion) that Granello in any way undermined the validity of the patent claim. Indeed, in final argument, counsel for AT&T specifically denied that it was relying on Granello as prior art that anticipated the Collins patent. *Ct. App. J.A.* 3813-14.

was entirely inconsistent with the interpretation later adopted by the Federal Circuit.[4] Here again, this testimony was not even acknowledged by the court of appeals, even as the court accepted an obviousness argument that was so untenable that AT&T had deliberately abandoned it before the trial.

At the same time, the court of appeals paid little or no heed to the determinations previously made on these same issues by the Patent Office in successive reexamination proceedings. It offered no explanation for disregarding the result of the first reexamination, which involved Granello and which was presented to the jury at trial. As to the second reexamination, completed after trial but included in the record on appeal, the court simply asserted that the Patent Office's reading of Mack was wrong, Pet. App. 5a, while again not mentioning the Patent Office's reaffirmation that Granello did not undermine the validity of petitioner's patent claim.

REASONS FOR GRANTING THE WRIT

This case presents important questions going to the heart of the role played by the Federal Circuit in patent infringement litigation. In such cases, the defendant regularly argues that the patent is invalid because the invention would have been obvious. Where, as here, this defense has been rejected not only by the finder of fact at trial but also by the Patent Office in one or more reexamination proceedings, the Federal Circuit has taken the view that it

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[4] The expert explained that Figure 5 did not, in fact, constitute an illustration of a switch but was instead a symbolic representation of a mathematical analysis, known as a Lee graph. Figure 5 does not -- and by its nature as a graph could not -- plainly illustrate a switch with multiple discrete components in each stage as concluded by the court. The court's opinion, at AT&T's urging, is simply factually wrong. No expert would testify (and face cross examination) in support of such an interpretation, which explains why AT&T dropped the Granello invalidity defense before trial.

retains a great deal of independent authority to disagree -- *i.e.*, to review the prior art, weigh a number of other relevant factors, and come to its own conclusion about what would have been obvious to a person having ordinary skill in the relevant field. There could be no clearer example of this practice than this case, where the Federal Circuit simply adopted its own interpretation of the key prior articles, rejecting the contrary understandings reached by the Patent Office in repeated reexamination proceedings and by the jury at trial.

There is a real need for this Court to determine whether the Federal Circuit is justified in acting as the primary decisionmaker on the question of obviousness, subordinating both the trier of fact and the Patent Office to minor supporting roles. We say this for several reasons. To begin with, the Federal Circuit's treatment of obviousness as a question of law to be decided by the court is simply wrong: it contravenes precedents of this Court going back many decades, conflicts with the language of the statute, and ultimately makes no sense. Regardless of what courts may choose to say about it, the question of what would have been obvious to persons in a particular field in a particular time period simply cannot be transformed into a question of law. It is plainly an issue comparable to negligence, which is properly decided by a trier of fact who has seen the live testimony and had a full opportunity to weigh all of the relevant factors.

At the same time, there are serious practical consequences associated with allowing this fundamental error to go uncorrected. The potential for *de novo* appellate consideration of obviousness magnifies the incentives to appeal all trial court determinations on this question. It also increases uncertainty, as patentees and their competitors attempt to ascertain the strength of patent claims that may have been upheld in reexaminations or trial courts but have not yet been subjected to the independent scrutiny of the Federal Circuit. Finally, such an approach renders the reexamination process fundamentally unfair to patentees. They now know that, if they initiate such a proceeding, they

run the risk of a Patent Office invalidation of their patent, which will be upheld by courts unless it is clearly erroneous. *In re Carlson*, 983 F.2d 1032 (Fed.Cir. 1992), amended 1993 U.S.App. LEXIS 1665 (Fed.Cir. Feb. 1, 1993). Yet they also know that a victory in the Patent Office will do them little good when the obviousness issue is again raised as a defense to infringement. The result will be a transformation of the reexamination process into a strategic tool and delaying tactic used by accused infringers, who stand to gain a great deal while risking little.

I. THE FEDERAL CIRCUIT'S HOLDING THAT OBVIOUSNESS IS A QUESTION OF LAW IS LEGALLY UNSUPPORTABLE

The rule that patents may only issue for "non-obvious" inventions was first written into the patent statute in the 1952 Act. *Graham v. John Deere Co.*, 383 U.S. at 15 (discussing 35 U.S.C. § 103). Since that time, this Court has not had occasion to rule on the question whether obviousness is a question of law or a question of fact. Indeed, as recently as 1986, the Court indicated that this was an open question in its mind. *See Dennison Mfg. Co. v. Panduit Corp.*, 475 U.S. 809, 811 (1986) (remanding because "most importantly, we lack the benefit of the Federal Circuit's informed opinion on the complex issue of the degree to which the obviousness determination is one of fact").[5] This Court should take the opportunity to resolve that question, now that the Federal Circuit has made a firm decision to treat the issue as a matter of law. *Panduit Corp. v. Dennison Mfg. Co.*, 810 F.2d 1561, 1566 (Fed.Cir.), *cert. denied* 481 U.S. 1052 (1987). If the Court does so, we submit that the

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[5] *See also id.* (discussing the summary of factors relevant to an obviousness inquiry set out in *Graham v. John Deere Co., supra*) ("This description of the obviousness inquiry makes it clear that *whether or not the ultimate question of obviousness is a question of fact* subject to Rule 52(a), the subsidiary determinations of the District Court, *at the least*, ought to be subject to the Rule.") (emphasis added).

answer will be clear: there is no basis for treating the question of obviousness as a legal determination subject to independent review.[6]

A. *The Federal Circuit's Rule Conflicts Both with the Pre-1952 Case Law and with the Language Used by Congress in the 1952 Codification.*

The Federal Circuit's current approach to review of § 103 obviousness determinations is largely based on this Court's statement in *Graham v. John Deere Co.* that *"[w]hile the ultimate question of patent validity is one of law, . . .* the § 103 condition, which is but one of three conditions, each of which must be satisfied, lends itself to several basic factual inquiries." 383 U.S. at 17 (emphasis added). *See, e.g., Panduit Corp. v. Dennison Mfg. Co.*, 810 F.2d 1561, 1567 (Fed. Cir.) (opinion on remand from this Court), *cert. denied* 481 U.S. 1052 (1987). *See also Sakraida v. AG Pro, Inc.*, 425 U.S. 273, 280 (1976), reh'g denied 426 U.S. 955 (1976) (paraphrasing this same statement from *Graham*). This reliance on *Graham* is misplaced, however, for several reasons.

First, at the time *Graham* was decided, there was already a long list of precedents from this Court holding that the pre-1952 non-statutory requirement of "invention" was an issue of *fact. See, e.g., Battin v. Taggert*, 17 How. 74, 85, 58 U.S. 74 (1854); *Keyes v. Grant*, 118 U.S. 25, 36-37 (1886); *Williams Mfg. Co. v. United Shoe Machine Corp.*, 316 U.S.

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[6] As we discuss more fully *infra*, this case is an appropriate one in which to resolve this question since the Federal Circuit clearly did not defer to the fact-finder and since the court relied for its approach on its prior decision in *Newell Cos. v. Kenney Mfg. Co.*, 864 F.2d 757 (Fed.Cir. 1988), *cert. denied*, 493 U.S. 814 (1989). *See* Pet. App. 6a. There, the panel majority, over a strong dissent, went so far as to hold that it is technically inappropriate even to ask a jury whether the invention incorported in a given patent claim is "obvious," and that the proper procedure is to give the jury interrogatories on disputed underlying factual issues. 864 F.2d at 765.

364, 365 (1942). For example, in *Thomson Spot Welder Co. v. Ford Motor Co.*, 265 U.S. 445, 446 (1924), this Court stated that "[t]he question whether an improvement requires mere mechanical skill or the exercise of the faculty of invention, is one of fact; and in an action at law for infringement is to be left to the determination of the jury." And again, in *U.S. v. Esnault-Pelterie*, 299 U.S. 201, 205 (1936), this Court held: "Validity and infringement are ultimate facts on which depends the question of liability. In actions at law they are to be decided by the jury . . . ."

It is highly unlikely that this Court in *Graham* intended, in one passing phrase, to overrule this line of precedent. To the contrary, the Court held that § 103 was merely a "codification" of the prior precedents recognizing an "invention" requirement, 383 U.S. at 17,[7] and it went on to use other language that tends to support treatment of obviousness as a question of fact. Recognizing the potential "difficulties in applying the nonobviousness test" set forth in the statute, the Court commented that these difficulties are "comparable to those encountered daily by the courts in such frames of reference as negligence and scienter, and should be amenable to a case-by-case development." 383 U.S. at 18. Negligence and scienter, of course, are both fact questions subject to deferential appellate review. *See McAllister v. United States*, 348 U.S. 19, 22-23 (1954), mod. denied 348 U.S. 957 (1955) (negligence); *Anderson v. City of Bessemer City*, 470 U.S. 564, 573 (1985) ("a finding of

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[7] *See also* 383 U.S. at 3-4 ("We have concluded that the 1952 Act was intended to codify judicial precedents embracing the principle long ago announced by this Court in *Hotchkiss v. Greenwood*, 11 How. 248 (1851), and that, while the clear language of § 103 places emphasis on an inquiry into obviousness, the general level of innovation necessary to sustain patentability remains the same."; *Sakraida v. AG Pro, Inc.*, 425 U.S. 273, 279, reh'g denied 426 U.S. 955 (1976) (same).

intentional discrimination is a finding of fact").[8]

Indeed, the Federal Circuit's reliance on *Graham* proves too much. After all, what the Court there said was that "the ultimate question of patent *validity* is one of law." 383 U.S. at 17. But as the Court then noted in the same sentence, obviousness is just one of three statutory conditions of patentability. The other two -- "utility" under 35 U.S.C. § 101 and "anticipation" under 35 U.S.C. § 102 -- are questions of fact. *Kalman v. Kimberly-Clark Corp.*, 713 F.2d 760, 771 (Fed.Cir. 1983), *cert. denied* 465 U.S. 1026 (1984) (§ 102) and *Newman v. Quigg*, 877 F.2d 1575, 1581 (Fed.Cir.), modified 886 F.2d 329 (Fed.Cir. 1989), *cert. denied* 495 U.S. 932 (1990).

Certainly the 1952 codification itself provided no basis for recognition of a new rule treating obviousness as a question of law. To the contrary, that codification reflects a congressional understanding that obviousness, and the other conditions of patentability, are properly treated as factual issues. In the very section authorizing defendants to challenge patent validity in infringement actions, Congress provided that a "patent shall be *presumed* valid" and that the "*burden of establishing invalidity* of a patent or any claim thereof shall rest on the party asserting such invalidity." 35 U.S.C. § 282 (emphasis added).

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[8] *Graver Tank & Mfg. Co. v. Linde Air Products Co.*, 339 U.S. 605, 609-610 (1950), reh'g denied 340 U.S. 845 (1950), also points to obviousness as being a question for the fact finder. In discussing the patent law doctrine of equivalents, Justice Jackson wrote for the Court:

> "A finding of equivalence is a determination of fact....Like any other issue of fact, final determination requires a balancing of credibility, persuasiveness and weight of evidence. It is to be decided by the trial court and that court's decision, under general principles of appellate review, should not be disturbed unless clearly erroneous. Particularly is this so in a field where so much depends upon familiarity with specific problems and principles not usually contained in the general storehouse of knowledge and experience."

Such language, by its very nature, indicates that obviousness (along with anticipation and utility) is properly viewed as a fact question. A "presumption" operates to determine the significance of particular types of *evidence* -- dictating that when certain predicate facts (such as the issuance of a patent) are proved, an additional proposition (such as the patent's validity) will be deemed established unless the adverse party comes forward with sufficient contrary factual evidence. *See* 6 *Moore's Federal Practice*, ¶ 56.11[10], at 56-159 (specifically referring to the presumption of patent validity). In some cases, the presumption creates only a burden of producing rebuttal evidence. *See* Fed. R. Evid. 301 (unless otherwise provided, "a presumption imposes on the party against whom it is directed the burden of going forward with evidence to rebut or meet the presumption"). In others, as here, the presumption imposes on the party the burden of proof. 35 U.S.C. § 282 ("The burden of establishing invalidity of a patent . . . shall rest on the party asserting such invalidity."). *See* 10 *Moore's Federal Practice* ¶ 301.04 (drawing this distinction).

In either case, however, such a rule is rational only if the "presumed" proposition is factual in nature. *See* Advisory Committee Note on 1972 Proposed Fed.R.Civ.P. 301 (presumptions under rule require party to establish "the nonexistence of the *presumed fact*, once the party invoking the presumption establishes the basic facts giving rise to it" (emphasis added). It would make no sense, after all, to presume the state of the *law* based on some prescribed factual showing, or to terminate that presumption based on the production of contrary evidence. And it makes even less sense to speak in terms of which party has the burden of proof regarding a question of law.[9]

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[9] Thus, courts sometimes assert that statutes carry a "presumption of constitutionality" -- a loose usage of the term in light of the fact that this "presumption" can be overcome through a legal argument that a statute is facially inconsistent with a constitutional requirement. But courts seldom if ever assert that one party has the burden of *proving* a statute's unconstitutionality. A burden of proof is invoked only with respect to a factual issue.

In sum, it is ultimately indefensible to suggest that either this Court or Congress is the source of the current rule treating obviousness as a question of law. The statute says no such thing. And the statement in *Graham* that the "ultimate question of patent validity is one of law" simply constituted a recognition that the Constitution, in Article I, § 8, sets outer limits on the power of Congress to grant patent monopolies, including a requirement that an invention reflect some degree of creative innovation. Indeed, the Court's sole citation in support of its statement was to a concurring opinion of Justice Douglas in *Great Atlantic & Pacific Tea Co. v. Supermarket Equipment Corp.*, 340 U.S. 147, 155 (1950), reh'g denied 340 U.S. 918 (1951). There, in a case that preceded the codification of the obviousness standard, Justice Douglas asserted that the "standard of patentability is a constitutional standard; and the question of validity of a patent is a question of law." *Id.* In *Graham*, this Court accepted that proposition. But it also drew a distinction between the constitutional standard and the question of obviousness as framed by Congress, which satisfies the constitutional requirement by providing a more "factual" type of inquiry, instead of a qualitative type inquiry. 383 U.S. at 17 ("The emphasis on nonobviousness is one of inquiry, not quality, and, as such, comports with the constitutional strictures.").

B. The Federal Circuit's Rule Makes No Legal or Practical Sense.

Treatment of obviousness as a question of law becomes even less defensible when one looks at the issue in common-sense terms. To begin with, it is virtually incoherent to state that this issue is inherently legal in nature. The question under section 103 is whether the innovative aspects of the subject invention "would have been obvious at the time the invention was made to a person having ordinary skill in the art to which said subject matter pertains." That question, on its face, is factual. It requires inquiry into the factual circumstances at a particular time in a par-

ticular technological field. It then posits a hypothetical "person of ordinary skill in the art," and asks whether the particular innovation would have been obvious to that person. A court may call this question "legal," but such a characterization cannot alter the fundamental nature of the inquiry.

The Federal Circuit, of course, recognizes that there are underlying factual elements relevant to the obviousness inquiry. Its answer is that the jury should be asked, through special interrogatories, to make findings concerning the predicate factors, most of which were set out in *Graham* itself. *See Newell Cos. v. Kenney Mfg. Co.*, 864 F.2d 757, 765 (Fed. Cir. 1988), *cert. denied* 493 U.S. 814 (1989). The court then is supposed to determine whether these predicate facts justify a finding of obviousness. But this makes no sense. First, these factors do not lend themselves to being reduced to meaningful interrogatory answers. How could a jury provide *all* the "facts" to a court, in a typical case? See, for example, *United States v. Adams*, 383 U.S. 39, 42-52 (1966).

Second, the nature of the ultimate inquiry -- would it have been obvious to one of ordinary skill in the art -- requires not simply marshalling the answers to the underlying factual inquiries, but weighing them. That weighing function is both complex and indivisible. And, as this Court has recognized in another context, even when the underlying facts are undisputed, an appellate court must defer to the inferences drawn by the fact-finder from such underlying facts. *See Anderson v. City of Bessemer City*, 470 U.S. 564, 576-77 (1985).[10]

Since the ultimate question of obviousness and the underlying factual questions are indivisible, treating obvi-

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[10] *See also* Fed.R.Civ.P. 52(a) (clearly erroneous standard applies even to findings based entirely on "documentary evidence"); *Advisory Committee Note on 1985 amendment to Rule 52* (explaining reasons for rejecting *de novo* appellate review of inferences drawn from a purely documentary trial record).

ousness as a legal question for the court inevitably leads the court to trespass on the fact-finding province of the jury. *Cf. Pullman-Standard v. Swint*, 456 U.S. 273, 287 (1982) (requirement of deference to trial judge's finding under Fed.R.Civ.P. 52 "does not divide facts into categories; in particular, it does not divide findings of fact into those that deal with 'ultimate' and those that deal with 'subsidiary' facts"). The present case is a blatant example, where the court found the facts (interpreting the prior art) on its way to the "legal" conclusion of obviousness. But it is not a lone example. As recognized in the dissent in *Newell Companies, Inc. v. Kenney Mfg. Co.*, 864 F.2d 757 (Fed.Cir. 1988):

> "Thus the panel majority, giving 'full and independent review by the court' to the question of unobviousness, conducts its own analysis of the prior art and draws its own independent conclusions, giving no deference whatsoever to the jury verdict. Despite the jury trial, the jury has disappeared from the decisional process."

See also Tao, *An Examination of the Federal Circuit's Multi-Tiered Review of Patent Obviousness,* 20 Am.Intell.Prop. L.A.Q.J. 84, 101-10 (1992); *Creative Mfg. v. UNIK,* 1989 WL 86447 (Fed.Cir. 1989) (unpub.)(dissent).

There are other problems with the Federal Circuit's approach as well. As long as the Federal Circuit stands ready to determine the validity of patents based on its own independent reading of the prior art, there will be virtually irresistible pressures to appeal every debatable trial judgment on this issue. After all, the appeal constitutes a "second bite at the apple," largely unencumbered by a requirement of deference to the conclusions drawn below. This will not only increase the litigation burden unnecessarily, but delay the day when a patentee and his competitors can feel that they have a degree of certainty concerning the real value of a given patent. The Federal Circuit itself once cautioned a litigant against "seek[ing] a second trial [by] arguing for '*de novo*' review of the obviousness issue." *Railroad Dynamics, Inc. v. A. Stucki Co.*, 727 F.2d 1506, 1513

(Fed.Cir.), *cert. denied* 469 U.S. 831 (1984). *See also id.* ("all that would be necessary under RDI's proposal is that the parties mail us the patent and the prior art and ask whether we think the claimed invention would have been obvious or unobvious"). The court now appears to be inviting exactly this kind of litigation tactic.

This Court has been asked on a number of occasions in recent years to review the Federal Circuit's handling of the obviousness issue. *Newell Companies Inc. v. Kenney Manufacturing Co., cert. denied* 493 U.S. 814 (1989); *Merck & Co. v. Biocraft Laboratories, Inc., cert. denied* 493 U.S. 975 (1989); *Dennison Manufacturing Co. v. Panduit Corp., cert. denied* 481 U.S. 1052 (1987); *Monoclonal Antibodies, Inc. v. Hybritech, Inc., cert. denied* 480 U.S. 947 (1987); *Daig Corp. v. Medtronic, Inc., cert. denied* 479 U.S. 931 (1986); *Nicolet Instrument Corp. v. Bio-Rad Laboratories, Inc., cert. denied* 469 U.S. 1038 (1984); *May v. American Southwest Waterbed Distributors, Inc., cert. denied* 465 U.S. 1103 (1984). The reason is simple: the current system is both unfair and unworkable.

II. THE FEDERAL CIRCUIT SHOULD BE REQUIRED, ABSENT SOME EXTRAORDINARY CIRCUMSTANCE, TO UPHOLD A JURY VERDICT ON OBVIOUSNESS THAT IS SUPPORTED BY A PREVIOUS DETERMINATION BY THE PATENT OFFICE IN A REEXAMINATION PROCEEDING.

The Federal Circuit's willingness to decide the question of obviousness for itself was particularly indefensible in a case like this one, where the same issue had been repeatedly considered by the Patent Office and those administrative determinations were in the record. The court of appeals has indicated that a prior reexamination upholding the validity of a patent makes the burden of proving invalidity in court "heavier." *Custom Accessories, Inc. v. Jeffrey-Allan Industries*, 807 F.2d 955, 961 (Fed.Cir. 1986). In reality, however, the court accords no real deference to the Patent Office's factual findings relating to technical issues.

Here, for example, the Federal Circuit ignored the Patent Office's factual findings relating to the nature and content of the prior art in the first reexamination, even though those findings were before the jury. Then, while taking judicial notice of the second reexamination which was pending during the appeal, the Federal Circuit ignored the Patent Office's treatment of the Granello reference, and summarily rejected the Patent Office's analysis of the Mack reference, simply stating that "the basis for allowance indicates a misunderstanding." Pet. App. 5a.

This rather casual treatment of the Patent Office's prior determinations is difficult to understand in a case where the court was, or should have been, asking whether the jury's verdict was supported by substantial evidence. Absent some extraordinary circumstance, a Patent Office ruling in a reexamination that focused on the same issues presented to a jury would seem, by itself, to constitute "substantial evidence" supporting a jury verdict that follows the Patent Office's lead. Moreover, any other result would defeat the legislative purpose behind the reexamination statute.

This Court and the Federal Circuit have consistently held that what a prior art reference teaches is a question of fact. *Panduit Corp. v. Dennison Manufacturing Corp.*, 810 F.2d at 1579 n.42 (citing *Graham v. John Deere Co.*, 383 U.S. 1, 17 (1966)). And, as such, the Patent Office's factual findings as to technical issues should be considered by the court in reviewing whether substantial evidence supports the verdict.[11]

Deference should be given the Patent Office because it is the agency that is expert in deciding technical issues. In analogous situations, this Court holds that technical issues should be deferred to the expertise of the administrative agency. See e.g., *Weinberger v. Bentex Pharmaceuticals, Inc.*,

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[11] When a patent is found *invalid* in a reexamination, the clear error standard of review is applied. *In re Carlson,* 983 F.2d 1032, 1038 (Fed.Cir.1992).

412 U.S. 645, 654 (1973). This Court stated in *Weinberger* that:

> "In cases raising issues of fact not within the conventional experience of judges or cases requiring the exercise of administrative discretion, agencies created by Congress for regulating the subject matter should not be passed over. This is so even though the facts after they have been appraised by specialized competence serve as a premise for legal consequences to be judicially defined. Uniformity and consistency in the regulation of business entrusted to a particular agency are secured, and the limited functions of review by the judiciary are more rationally exercised, by preliminary resort for ascertaining and interpreting the circumstances underlying legal issues to agencies that are better equipped than courts by specialization, by insight gained through experience, and by more flexible procedure."

Id. (quoting, *Far Eastern Conference v. United States*, 342 U.S. 570, 574-75 (1952)).

Such deference is particularly important where there has been a reexamination of a patent, because such a proceeding comes very close, in most cases, to constituting a litigated administrative determination on the validity issue. After all, AT&T's substantial involvement in the reexamination proceedings (two initial filings and a third, mid-reexamination filing that included trial evidence) is not unusual. Since the statute became effective in 1981, there have been 3293 reexaminations filed in the Patent Office. Of those filings, 54% were filed by entities other than the patent owner. And, 19% of those reexaminations involved patents "known" to be in litigation. (*December 31, 1993 Quarterly Reexamination Statistical Report of the Assistant Commissioner of Patents*, available on request from United States Patent and Trademark Office) Thus, while reexaminations have been technically referred to as *ex parte*, and do not formally bind any party other than the patentee, it

is certainly appropriate to give the results substantial weight. As one judge put the matter:

> "To characterize reexamination in its entirety as an *ex parte* proceeding under such circumstances [extensive involvement by the alleged infringer], while technically correct, ignores reality. It is, in my view, more appropriate to view it here as collateral to the pending litigation, although without res judicata effect against the alleged infringer if the claims are held valid."

In re Etter, 756 F.2d 852, 862 (Fed.Cir.) (Nies, J., concurring), *cert. denied* 474 U.S. 828 (1985).[12]

By enacting the reexamination statute, Congress intended to "eliminate or simplify a significant amount of patent litigation." *In re Opprecht*, 868 F.2d 1264, 1265 (Fed. Cir. 1989). The congressional proponents of the statute perceived three benefits. First, the procedure could settle validity disputes more quickly and less expensively than the often protracted litigation involved in such cases. Second, the procedure would allow courts to refer patent validity questions to the expertise of the Patent Office. Third, reexamination would reinforce "investor confidence in the certainty of patent rights" by affording the Patent Office a broader opportunity to review "doubtful patents". *Patlex Corp. v. Mossinghoff*, 758 F.2d 594, 602 (Fed.Cir. 1985), modified, reh'g denied 771 F.2d 480 (Fed.Cir. 1985).

The Federal Circuit's review of patent infringement suits that involve reexaminations has eroded the benefits of a reexamination as intended by Congress. As with the

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[12] Recognizing the reality of reexaminations, one respected commentator stated that "...given the adversarial contribution that will be present with many reexaminations, and given the intent of Congress in enacting the reexamination procedure, it would seem appropriate that the courts give substantial weight to specific determinations of fact made by the Office in confirming patentability." Chisum, *Patents*, Vol. 3, § 11.07[4], 11-295 (1993).

technical findings of other administrative agencies, the courts should defer to technical findings in reexaminations, and conclude, at least in the usual case, that such technical findings provide the substantial evidence required to uphold a later jury verdict that is consistent with the Patent Office's conclusions.

III. THIS COURT SHOULD EXERCISE ITS SUPERVISORY POWER OVER THE FEDERAL CIRCUIT

Leaving aside the broader issues raised in this case, the Federal Circuit "has so far departed from the accepted and usual course of judicial proceedings...as to call for an exercise of this Court's power of supervision." Sup. Ct. R. 10.1(a). In the usual course of appellate review, a court should 1) determine the proper issues raised for decision; 2) apply the proper standard of review; and 3) follow the applicable substantive law. The court below violated all three of these fundamental tenets.

First, § 103 obviousness was not raised as an issue on the appeal.[13] No argument was presented. The statute was never mentioned. Neither *Graham v. John Deere Co., supra*, nor any other leading authorities on obviousness was cited. And no *Graham* analysis on the factual inquiries was made. The only invalidity issue raised was § 102 anticipation (newness), not the wholly different issue of obviousness. ("In this case, as in *Verdegaal*, the evidence is so clear and convincing that reasonable jurors could only conclude that the claims 29, 34, 37-39, 43 and 47-48 ('the asserted claims') are invalid under 35 U.S.C. 102." AT&T's Main Br. p. 26) Nonetheless, the court below invalidated claim 29 based on § 103 obviousness, thus depriving petitioner of its

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[13] Appellant-respondent had not raised § 103 obviousness in its post trial motion for judgment as a matter of law and, accordingly, would have been barred from raising obviousness on the appeal. *Johnson v. New York, N.H. & H.R. Co.*, 344 U.S. 48, 50 (1952); *Fountain v. Filson*, 336 U.S. 681, 683 (1949), reh'g denied 337 U.S. 921 (1949).

$35 million judgment without a fair opportunity to be heard.

Second, the court below did not apply the requisite standard of review for jury verdicts -- the substantial evidence test.[14] None of the evidence that supported the verdict was even mentioned, much less analyzed. In interpreting the highly technical prior art, the court did not refer to any evidence at all; it simply made its interpretation based on the prior art documents themselves. This very issue, interpretation of the prior art, was the pivotal *factual* dispute at trial on the validity issue.[15] The review was *de novo*, in violation of the substantial evidence test and the Seventh Amendment.[16]

Third, the court did not follow, or even mention, the substantive law of § 103 obviousness -- i.e., the methodology and factual inquiries laid down in *Graham v. John Deere*

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[14] "We have defined 'substantial evidence' as 'such relevant evidence as a reasonable mind might accept as adequate to support a conclusion.' *Consolidated Edison Co. v. Labor Board*, 305 U.S. 197, 229." *Consolo v. Federal Maritime Comm'n*, 383 U.S. 607, 619-20 (1966); *see generally: Perkin-Elmer Corp. v. Computervision Corp.*, 732 F.2d 888, 893 (Fed.Cir.), *cert. denied* 469 U.S. 857 (1984).

[15] At the trial, petitioner's technical expert interpreted the prior art in a manner wholly incompatible with that of the court below -- but that evidence was ignored. Respondent's witness, Mr. Mack, made key admissions on cross-examination that undermined the court's interpretation of the Mack prior art -- and again that evidence was ignored. The Patent Office, in its first reexamination, confirmed validity based, inter alia, on its interpretation of Granello -- and that evidence too was ignored. All this evidence, going to a clear question of fact ("the scope and content of the prior art, *Graham v. John Deere Co., supra* at 7) was before the jury but disregarded by the court below.

[16] The opinion's reference (Pet. App. 6a) to the proper standard is not enough. This Court determines whether the standard was in fact applied, not just whether lower court "acknowledged and correctly stated the controlling standard." *Pullman-Standard v. Swint*, 456 U.S. 273, 290-291 (1982).

Co., *supra*, and reaffirmed in *Dennison Mfg. Co. v. Panduit Corp.*, *supra*. That comprehensive factual approach, aimed at unearthing the hypothetical person of ordinary skill in the art so as to determine what would or would not have been obvious, is altogether different from the approach taken below, which involved simply looking at one of the many *Graham* inquiries, the scope and content of the prior art. The law is clear that evidence of the so-called secondary considerations "may often establish that an invention appearing to have been obvious in light of the prior art was not." *Stratoflex, Inc. v. Aeroquip Corp.*, 713 F.2d 1530, 1538 (Fed.Cir. 1983); *see United States v. Adams*, 383 U.S. 39, 51-52 (1966). Here, the evidence established that AT&T had long recognized the need for a digital central office switch; some 70 Bell Laboratory researchers had unsuccessfully tried to solve the problem; and when the problem was solved by the patented invention, the commercial success of AT&T's switch was in the billions of dollars.

Unfortunately, this decision is not an aberration from the Federal Circuit. The court's recurrent failure to follow the rule of law, in favor of a result in a particular case, has been recognized and criticized from all quarters:

District Court: "[W]hen they would prefer a different result than that reached by the trial judge, they shift from his findings of fact and say, 'Oh no. This is a conclusion of law.' And, to some extent, I am constrained to say that some of the decisions that I have read from this Circuit are result driven."[17]

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[17] *Ninth Annual Judicial Conference for the Federal Circuit*, 140 F.R.D. 57, 69 (1991). (Judge Avern Cohn (E.D.Mich.)) Ironically, Judge Cohn, sitting by desgnation, was on the panel below.

Patent Bar: "The charge that the court makes *de novo* fact finding is demonstrably true."[18]

U.S. Commissioner of the Patent and Trademark Office: "The [Federal Circuit's] standard of *de novo* review for patent cases is totally inappropriate...."[19]

The Court Itself: "As the appellate court receiving appeals from all the district courts of the nation, today's decision moves patent jury trials into some undefined limbo unique to patent litigation. This new and confusing conflict with our own precedent, of constitutional dimension, can not reassure the bar, or litigants or trial judges."[20]

As the final arbiter in all patent matters, the Federal Circuit plays a vital role in the implementation and success of our patent system. The proper and predictable functioning of the patent system becomes ever more important in this world of rapidly advancing technology and global competition. Supervision by this Court is required. The Court should therefore grant plenary review or, in the alternative, "grant the petition for certiorari, vacate the judgment, and remand the case to the Court of Appeals," *Dennison Mfg. Co. v. Panduit Corp.*, 475 U.S. 809 (1986).

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[18] *Fourth Judicial Conference for the Federal Circuit,* 112 F.R.D. 439, 452 (1986) (Thomas Arnold, former President, American Intellectual Property Association). Mr. Arnold suggested more recently that his views on this issue have not changed, when he asked in a panel discussion:

> "Have you ever observed the Court writing as though they were writing on the law, but in fact writing a plain, naked reversal of findings of fact?" *AIPLA Bulletin,* Third Quarter, 1993, p. 651.

[19] *National Law Journal,* "New Patent Chief Reinvents His Job", February 28, 1994, p.40, (quoting Comm. Lehman).

[20] Judge Pauline Newman dissenting in *Newell Companies, Inc. v. Kenney Mfg. Co.,* 864 F.2d 757, 770 (Fed.Cir. 1988).

CONCLUSION

The petition for writ of certiorari should be granted.

Respectfully submitted,

Rolf Stadheim
Counsel of Record
Joseph A. Grear
Law Offices of
Rolf Stadheim, Ltd.
Wrigley Tower - 22nd Floor
400 N. Michigan Avenue
Chicago, IL 60611-4102
(312) 755-4400

Paul M. Smith
Farr, Smith & Tarranto
2445 M Street, N.W.
Washington, D.C. 20037
(202) 775-0184

Counsel for Petitioners